OPASTCO

ORGANIZATION FOR THE PROTECTION
AND ADVANCEMENT OF SMALL
TELEPHONE COMPANIES

21 DUPONT CIRCLE, N.W., SUITE 700
WASHINGTON, D.C. 20036
202/659-5990 • 202/659-4619 (FAX)

November 20, 1995

RECEIVED

NOV 20 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

Re: Price Cap Performance Review for Local Exchange Carriers
CC Docket No. 94-1

Treatment of Operator Services Under Price Cap Regulation
CC Docket No. 93-124

Revisions to Price Cap Rules for AT&T
CC Docket No. 93-197

Dear Mr. Caton:

Please find enclosed for filing the original and eleven copies of the Organization for the Protection and Advancement of Small Telephone Companies' comments in the above-captioned proceeding.

Thank you for your assistance in this matter.

Sincerely,

Lisa M. Zaina

Lisa M. Zaina
General Counsel

No. of Copies rec'd 0+11
List ABCDE

RECEIVED

NOV 20 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
Treatment of Operator Services Under Price Cap Regulation	)	CC Docket No. 93-124
Revisions to Price Cap Rules for AT&T	)	CC Docket No. 93-197

COMMENTS OF
THE ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES

OPASTCO
21 Dupont Circle, NW
Suite 700
Washington, DC 20036
(202) 659-5990

November 20, 1995

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
Treatment of Operator Services Under Price Cap Regulation	)	CC Docket No. 93-124
Revisions to Price Cap Rules for AT&T	)	CC Docket No. 93-197

COMMENTS OF
THE ORGANIZATION FOR THE PROTECTION AND
ADVANCEMENT OF SMALL TELEPHONE COMPANIES

I. INTRODUCTION

On September 20, 1995, the Federal Communications Commission (FCC or Commission) released the text of a Second Further Notice of Proposed Rulemaking in its Price Cap Performance Review Docket which proposes a framework of increasingly less stringent regulation for price cap LECs' pricing of access services.[1] The Organization for the Protection and Advancement of Small

[1] In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, Second Further Notice of Proposed Rulemaking; Treatment of Operator Services Under Price Cap Regulation, CC Docket No. 93-124, Further Notice of Proposed Rulemaking; Revisions to Price Cap Rules for AT&T, CC Docket No. 93-197, Second Further Notice of Proposed Rulemaking, 60 FR 49539 (September 26, 1995). (SFNPRM, Second Further Notice)

Telephone Companies (OPASTCO) hereby submits its comments in response to the Commission's SFNPRM.

OPASTCO is a national trade association of more than 450 independently owned and operated telephone companies serving rural areas of the United States and Canada. Its members, which include both commercial companies and cooperatives, are small and rural LECs serving over 2 million customers. OPASTCO is concerned about the impact increased flexibility to move access prices closer to cost will have on toll rates in rural areas. In light of its effect on geographic rate averaging, OPASTCO cannot support unrestricted access charge flexibility.

II. UNRESTRICTED ACCESS PRICING FLEXIBILITY THREATENS GEOGRAPHIC TOLL RATE AVERAGING AND THE PROVISION OF UNIVERSAL SERVICE

The Commission has consistently recognized that its policies, first and foremost, must ensure universal service. In fact, it previously designated the provision of universal service as a Baseline Issue in CC Docket 94-1.[2] Baseline Issue 1b of the NPRM requested comment on: "Whether the goal of providing universal service to all geographic areas and of equal type and quality for all Americans at affordable prices is being met, or

[2] In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, Notice of Proposed Rulemaking, 59 FR 12888 (March 18, 1994). (Notice, NPRM)

whether we should revise the LEC price cap plan to ensure provision of universal service."[3] Ironically, in the Second Further Notice of this proceeding, the Commission has offered proposals that have the potential to jeopardize the provision of universal service.

While OPASTCO would not oppose some sort of incremental pricing flexibility, it cannot support unrestricted flexibility of access charges. Driving access charges towards their actual costs would have a deleterious effect on the provision of universal service in rural areas due to the pressure it would put on the geographic averaging of toll rates. Before allowing even moderate access pricing flexibility, such as some of the proposals in the SFNPRM, the FCC should establish a mechanism that ensures pressures from this flexibility do not result in rural customers paying higher toll rates. Hopefully, a measured approach will allow the price cap LECs some of the flexibility they seek without precipitating the deaveraging of toll rates at the expense of those subscribers who are most reliant on the interexchange network.

---

[3]Notice at para. 36.

The FCC's policy of geographic rate averaging for both interstate and intrastate toll rates[4] is critical to ensuring that rural Americans continue to have access to reasonably priced toll service. The costs of carrying a call to rural areas generally are much higher because of longer distances and less telephone traffic. If rates were deaveraged, a call would cost more on a low-volume route than would a call of equal distance on a high-volume urban route. As a result, toll rates in rural areas would be considerably higher.

As can be seen from the following chart compiled from the FCC Universal Service Fund Notice of Inquiry (USF NOI) Data Request, rural customers already tend to have higher toll bills than those of their urban counterparts. These higher toll bills, combined with lower local bills (which reflect smaller local

[4]Although geographic rate averaging is currently just a Commission "policy," both S. 652, the Telecommunications Competition and Deregulation Act of 1995, and H.R. 1555, the Communications Act of 1995, clearly include geographic toll rate parity in its definition of universal service. Both bills state that the rates charged by interexchange service providers to customers in rural and high-cost areas shall not exceed those charged by each provider to its customers in urban areas. S. 652 as passed by the Senate, 104th Cong., 1st Sess., Sec. 103(e); H.R. 1555 as passed by the House, 104th Cong., 1st Sess., Sec. 101(a).

calling scopes in rural areas), result in comparable total bills for rural and urban Americans.

Number of Access Lines	Number of Study Areas	Average Local Service Bill	Average Total Residential Bill
Under 5K	549	$17.62	$53.37
5K-10K	98	$17.44	$48.67
10K-25K	60	$20.19	$54.41
25K-50K	28	$19.19	$49.15
50K-250K	18	$21.80	$54.83
250K-1M	5	$27.45	$55.02
>1M	14	$27.91	$57.79

Therefore, permitting toll rates in rural areas to gravitate to their natural economic costs would lead to higher overall phone bills for these customers.

Telecommunications policymakers frequently stress that the telecommunications infrastructure must be deployed in such a way that it avoids the creation of information "haves" and "have nots." Geographic toll rate averaging has been an effective way of guarding against this disparity. It ensures that rural customers' toll rates are not so high as to prevent access to the national information infrastructure. In addition, the ability of rural communities to attract businesses to their areas is highly dependent upon parity with urban centers in the quality and price of telecommunications services. An unreasonable increase in toll rates could prevent rural access to the information revolution and the security of a diverse economic base. Moreover, the deaveraging of toll rates could lead to a decrease in telephone subscribership, an issue for which the FCC has shown great concern.[5]

Rural customers facing higher toll rates can do one of two things. One option is to continue making calls and pay the higher rates. Eventually, however, many rural residents may be forced to curtail their long distance calling. Often, calls such as those to doctors, emergency services and schools are toll calls for customers in rural areas. Thus, allowing toll rates to skyrocket out of control could leave rural customers without access to life sustaining services. Loss of access to toll would also isolate these customers, many of whom are elderly, from friends and family.

---

[5] See, In the Matter of Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network, CC Docket No. 95-115, Notice of Proposed Rulemaking, 60 FR 44296 (August 25, 1995).

Already some proposals in CC Docket 80-286[6] will invariably lead to higher local rates for rural customers. Combining higher toll rates with higher local rates could lead some rural customers to disconnect from the network entirely. Any reduction in subscribers adversely affects not only the lost subscriber, but the value of the network as a whole. OPASTCO strongly believes that public policy that results in even a small number of subscribers disconnecting telephone service, because they can no longer afford service, is not acceptable.

OPASTCO conducted a survey as part of its study of the effect toll deaveraging and the elimination of support mechanisms would have on rural telephone customers.[7] The survey was mailed to 5,000 randomly selected subscribers of 20 small LECs from throughout the country. Several survey questions addressed subscribers' perception of what they would do in response to increases of $5, $10, $15 and $25, respectively, in their monthly phone bill. The following chart shows the number of subscribers

---

[6]See, In the Matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Notice of Proposed Rulemaking and Notice of Inquiry, FCC 95-282 (July 13, 1995).

[7]Keeping Rural America Connected: Costs and Rates in the Competitive Era.

that said they would disconnect their telephone service, given an increase in their monthly rates.[8]

Level of Monthly Price Increase	Number of Subscribers Disconnecting Service	Number of Subscribers Responding to Question	Percentage of Subscribers Disconnecting Service
$ 5	62	1,429	4.3%
$10	117	907	12.9%
$15	207	764	27.1%
$25	396	886	44.7%

Applying these percentages to the data compiled from the OPASTCO Study Group LEC[9] data, OPASTCO was able to determine the potential number of subscribers who would disconnect service. The data indicates that approximately 573,000 or 20.4 percent of the study group LECs' subscribers would disconnect their telephone service. Clearly, geographic toll rate averaging is an essential ingredient in the quest for increased subscribership penetration and the provision of universal service. It is a policy that the Commission must continue to maintain as it seeks

[8]Keeping Rural America Connected: Costs and Rates in the Competitive Era, 5-2.

[9]The OPASTCO Study Group LECs are 424 small, rural LECs that settle on a cost basis in both the National Exchange Carrier Association (NECA) Common Line and Traffic Sensitive pools. The LECs represent approximately 2.8 million rural access lines.

to provide price cap LECs with the flexibility to respond to competitive market forces.

III. CONCLUSION

OPASTCO believes that unrestricted pricing flexibility for LEC access services is not in the public interest. A moderate, careful approach to pricing flexibility may be warranted. However, the Commission must ensure that policies are in place to prevent any unreasonable increases in toll rates that are brought on by changes in access charge rates. Moreover, in considering increased access charge pricing flexibility for price cap LECs, the FCC must recognize that these decisions are not transparent to small and rural LECs and their customers.

Respectfully Submitted,

THE ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES

By: Lisa M. Zaina

Lisa M. Zaina
General Counsel

By:______________________
Stuart Polikoff
Regulatory and
Legislative Analyst

OPASTCO
21 Dupont Circle, NW
Suite 700
Washington, DC 20036
(202)659-5990

November 20, 1995